

Global
Cash Management
Services

Citicorp Services Inc. 773/380-5242
8430 W. Bryn Mawr Ave. Fax
Chicago, IL 773/380-5332
60631

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Mark E. MacKenzie
Executive Director

CITICORP 

December 15, 1997

Cynthia L. Johnson
Director, Cash Management
Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
Room 420, 401 14th Street S.W.
Washington, D.C. 20227

Re: 31 CFR Part 208

Dear Ms. Johnson:

Thank you for this opportunity to comment on the regulations published in Federal Register Vol. 62, No. 179, at page 48714, as promulgated by the Financial Management Service ("FMS"), Fiscal Service, Department of Treasury ("Treasury"). Citibank and its affiliates ("Citibank") vigorously support the goals of Section 31001(x) of the Debt Collection Improvement Act of 1996 ("Act"), to convert virtually all federal payments to electronic funds transfer ("EFT") by January 1, 1999 (the initiative generally known as "EFT 99").

We have noted that the request for comment includes several specific questions. We address all of these questions at the end of the following general commentary on the contents of the proposed regulations.

GENERAL COMMENTARY

As an organization that currently disburses "Direct Federal" benefits (such as Social Security Annuities, Supplemental Security Income, Veterans Administration benefits and others), using debit card technology, Citibank is uniquely qualified to evaluate the potential effect of these regulations on FMS's ability to achieve its EFT 99 goals. We firmly believe that those goals are achievable in the time remaining before the mandatory provisions of the Act take effect. To meet this timetable, however, we urge FMS to initiate and complete in early 1998 a selection process to identify the entities that will provide the electronic transfer account ("ETA") for "unbanked" individuals as required by Section 208.5 of the proposed regulations.

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This time frame would allow for the completion of several necessary steps. For example, the selected contractor(s) must work with Treasury to distribute all necessary notices to benefit recipients. Second, recipients must be allowed an opportunity to either arrange for direct deposit or a similar service, or respond to the "opt out" provisions of the regulations (discussed in more detail below) so that they may continue to receive a check. Third, the contractor(s) must establish ETAs for recipients who neither select an available electronic service, nor exercise their options under one or more of the EFT 99 waiver categories (also discussed below). This will be accomplished using data provided by Treasury in conjunction with the affected benefit agencies, such as the Social Security Administration and the Veterans' Administration among others. Finally, the account access cards must be produced, distributed and activated. There are many other included steps, but these are the major activities required to convert this population to EFT by the target date.

With respect to the content of the proposed regulations, first and foremost we agree with Section 208.6(a), requiring all Federal payments be made to an account at a financial institution, as defined in Section 208.2(e). For the reasons of consistency, technology, credit risk, and the desirability of FDIC-insured accounts, we believe any exception to this standard (other than that provided by the regulations for "authorized payment agent") would introduce an open-ended opportunity to include any number of financial service providers who are not FDIC-insured. Any perceived advantages of an expanded standard would be substantially outweighed by the unnecessary introduction of risk to the system.

It is non-FDIC insured financial service providers, not FMS payment recipients, who would stand to gain the most from an expansion of the entities authorized to receive and handle EFT 99 deposits. FMS has valid reasons for its decision, as stated in the commentary to the proposed regulations. Safety and security in the transfer and management of funds must be the government's priority. Use of a financial institution is FMS's reasonable choice as the best option available to achieve this goal. We therefore also support the FMS proposed definition of "Financial Institution" in Section 208.2(e).

Regarding "Waivers" as defined by Section 208.4, we agree that waivers for hardship cases are appropriate. FMS should allow all reasonable efforts to be made to ensure that obtaining funds from the Federal government and to which the recipient is clearly entitled is not in itself a hardship to the recipient. However, we question the effectiveness of a procedure, as described in the FMS commentary at FR 48718, where an individual's certification will be the sole means of determining waiver eligibility. While we do not advocate the creation of a cumbersome evaluation and enforcement mechanism, we must ask whether an alternative method of evaluation is available.

Simplified audit mechanisms could be combined with the contents of a waiver request for an initial indication of validity. For example, if an individual requests a waiver based on geographic remoteness of a financial institution but resides in a zip code containing one or more financial institutions, this could trigger an exception condition and a follow-up inquiry from the agency to the individual. Also, the waiver procedure as presently

described appears to make no provision for a change in status from non-hardship to hardship and vice-versa. This may require further review.

Our concerns on this point must be kept in perspective, however. We believe that the "opt out" nature of EFT 99, in addition to providing the most efficiently administered enrollment process, will also tend to discourage false waiver certifications. Effective marketing efforts demonstrating the advantages of EFT (such as a "trial period" of services at no cost to the recipient) should also discourage this practice. However, the FMS may want to study a sampling of individual waiver requests for indications of their validity some time after the first year of EFT 99. Overall, however, we concur with the FMS-identified waiver categories in Section 208.4.

Because of our work in providing Direct Federal benefits through EFT and in the field of electronic benefit transfer ("EBT") for the USDA Food Stamp Program and various state-administered welfare benefits, our organization has a significant interest in the form and characteristics of the ETA.

First, we agree with Treasury's approach, described at Page 48721, in not mandating financial institutions to provide "a basic account at a reasonable price" or designing a "model deposit account" that financial institutions could voluntarily offer. In addition to Treasury's valid objections to these methods, any such mandate could stifle efforts to creatively offer services that respond to the recipients' needs at prices the recipients can bear. For the same reason, we agree with Treasury's decision not to define in the regulations the characteristics of these accounts. To do so would reduce the opportunity and incentive for the private sector to offer alternatives through the competitive bidding process that will be used to select the account providers. We also believe that had Congress intended a more prescriptive government definition of the ETA, the language of the Act would have been much more specific.

The broad guidelines provided at FR page 48721 that "each recipient should have an individual account at a Federally insured financial institution" accessed by debit card "at any location of that institution" is specific enough to place these account holders in the consumer EFT "mainstream" while allowing vendors the flexibility to propose a variety of specific solutions. Treasury's competitive selection process should be an appropriate vehicle in which to define more specifically the account's basic and optional characteristics. However, for the purposes of these regulations, Treasury may wish to expand its preliminary view that recipients access their accounts via a plastic debit card to allow for the possibility of other technologies, such as stored value and smart cards.

On the issue of reasonable cost, we again commend FMS for declining the opportunity to set fees through this proposed regulation. Citibank is a strong and consistent supporter of allowing market forces to answer such questions. If there is one fee-related area, however, that requires Treasury attention, it is the matter of monthly statements. We have established in our existing Direct Federal benefit projects that monthly statements are simply not necessary for our benefit recipient population. Recipients in our programs have the choice of whether to receive printed, monthly statements by mail for a fee

deducted from the recipients' accounts. This policy is based on an exception granted to Treasury by the Federal Reserve Board specifically for these Direct Federal benefit programs.

Our experience indicates that statements are not a necessary service. An automated response unit (ARU) is sufficient for the needs of most recipients to obtain past transaction information. Our statistics indicate that less than 20% of Direct Federal benefit recipients request statements, and that this percentage is dropping. The Citibank ARU can be accessed, in English or Spanish, via a toll-free call to provide a recorded history of the previous 10 transactions and the current balance. This generally includes at least one month's worth of transactions. The caller can also request a live customer service representative (CSR), if desired. The CSR has on-screen information on one year's worth of transactions.

Also, since transactions are limited to benefit deposits and withdrawals, there is generally little chance of recipient confusion when obtaining information through the ARU. In our current Direct Federal benefit service, there are no outstanding checks to reconcile, and since all transactions occur on-line, overdrafts are not possible. Though we can continue to provide printed monthly statements, in our opinion the cost of mandating this practice far outweighs the benefit. The fixed cost would increase to all recipients but only a few would use the service. We understand that Treasury is considering other regulations that would relax the monthly statement requirement. Our experience in delivering Direct Federal benefits, as discussed above, supports this approach, especially in the context of proposed Section 208.5.

Whatever EFT 99 actions FMS takes, we also encourage an approach that recognizes and permits the states' progress toward including the disbursement of Direct Federal benefits in their EBT programs for state-administered benefits. It is important that the federal government endorse the continuation of existing combined EBT/Direct Federal projects, such as the Southern Alliance of States ("SAS") and recognize that other states, individually and in coalitions, have concrete plans to introduce Direct Federal benefits into their EBT programs. Indeed, many state and regional EBT projects (such as the SAS) were conceived with the expectation of additional economies of scale that would be obtained by including Direct Federal benefits in the mix of services provided by the EBT contractor. Allowing Direct Federal benefit distribution to evolve through both EBT and EFT 99 will produce the most comprehensive benefit delivery "safety net" possible. Exclusion of EBT programs from the Direct Federal benefit delivery strategy, however, would only serve to limit options.

We are also aware of concerns among some consumer groups that ETAs could prove especially burdensome to recipients with special issues, such as language fluency or reduced mental capacity. Many state EBT procurements have addressed these issues on a state-specific basis by requiring protective measures that relate to the needs of the population. Language is an excellent example, where EBT programs have included relatively uncommon languages such as Arabic, Creole and Navajo. Adding Direct

Federal benefits to existing EBT contracts could enhance government's ability to see that the needs of impacted populations are specifically met.

There is, however, a major obstacle to the inclusion of Direct Federal benefits in existing EBT projects. The proposed regulations now provide FMS with an opportunity to remove this obstacle by revising its policies on "crossover" cases. These policies tend to discourage the extension of EBT services to Direct Federal benefits in existing projects and contracts.

Current FMS policies permit the "retrofitting" of EBT projects to include Direct Federal benefits only for recipients who receive both state and Direct Federal benefits. This requirement tends to limit the ability of the state and its EBT contractor to extend debit card services to Direct Federal benefit recipients in EBT projects. Limiting retrofitting initiatives to crossover cases can lead to confusing and needless complications. For example, if state EBT benefits to a crossover recipient are discontinued due to a change in eligibility status, existing FMS policy could require terminating Direct Federal benefit card services to that cardholder.

However, eliminating the crossover requirement and making Direct Federal benefit card services available through a state EBT program on a voluntary basis to all unbanked recipients in the project region would serve several important purposes. First, it would prevent confusing eligibility issues like the one described above. Second, it would provide an additional enabling strategy to achieve the goals of EFT 99. Third, it would allow states more flexibility to offer improved government services to residents. Fourth, EBT project requirements could be responsive to some of the issues being raised by consumer groups. Finally, it would provide benefit recipients with a previously unavailable option, easily promoted through check inserts and other proven marketing approaches.

SPECIFIC QUESTIONS

Q1. Should Treasury make available a debit card-based account to individuals who are required to receive Federal payments by EFT and who do not have an account of their own with a financial institution?

A1. Treasury should make available an electronic account to individuals required to receive Federal payments by EFT and who do not have an account of their own at a financial institution. However, Treasury should not attempt to define the account's features, characteristics, or costs to the recipients. Instead, the private sector's response will define the optimum account that meets the needs of the market. A magnetic stripe, on-line debit card is one effective method for doing so. Other potential methods include stored value magnetic stripe and chip-imbedded, or "smart" cards. Citibank has proven the effectiveness of on-line magnetic stripe debit cards as a method to access benefits and entitlements. Financial institutions are uniquely qualified to offer such an account in a manner that is consistent with all of Treasury's EFT 99 policy objectives.

Q2. Should the cost of the account to the recipient be the most important factor for selecting the account structure and/or the account providers, or should the account structure be designed to meet other objectives even if the cost to recipients is increased as a result? If the latter, which objectives? What is an appropriate standard by which to weigh tradeoffs between increased costs and additional account features?

A2. Cost should be a highly important, if not the most important factor in selecting the account structure. It can generally be assumed that the population of unbanked individuals who will use this account will have little disposable income. We are not clear on what "other objectives" Treasury has in mind when it asks whether the account structure should be designed to meet such objectives even if costs to recipients are increased. We are not aware of what objectives and account features beyond basic EFT access would warrant increased costs to recipients. Treasury has already set the appropriate standard for weighing the tradeoffs between features and costs: any features and corresponding costs that would tend to increase hardship waiver requests to a significant degree are probably, on balance, not worthwhile. This approach is supported by consumer research conducted among Direct Federal benefit recipients. However, once the ETAs exist, Treasury and other government agencies willing to fund additional services could use the accounts to effect policy changes from time-to-time on a pilot or permanent basis. For example, Treasury could fund additional development efforts to establish a health or catastrophic care "savings feature" or some other financial mechanism to support a desired policy outcome. If managed with respect for the dignity of the recipients, these accounts could become a valuable test base for evaluating social initiatives and personal financial policy.

Q3. Should the account be structured to provide only a basic withdrawal service at the lowest possible cost, with additional service charges for additional features, or should the account offer a range of services at a fixed monthly cost, even if greater than the cost of a basic account?

A3. Based on Citibank's experience in the area, we would support an account with a basic service level at lowest possible cost, with additional services offered as fee-based options. This approach is supported by consumer research conducted among Direct Federal benefit recipients. We do not believe that an account with a range of services can be made available at a fixed monthly cost that will be within the reach of those recipients most in need of this service.

Q4. How many withdrawals should be included in the base price of the account? Should the account terms address the charges imposed by automated teller machine owners other than the account provider?

A4. On the issue of whether the base price of the account should include a minimum number of withdrawals, there is a significant difference between the system costs of POS and ATM withdrawals. Until this issue is addressed more directly, it is not productive to discuss what specific number of withdrawals should be provided. Also, the account fee

should not include any ATM owner-imposed fees, except for ATMs owned by the financial agent providing the account service. It is not possible to predict how often and in what amount recipients will encounter ATM fees. Cardholders should instead be encouraged to use the POS option as often as possible to access their cash in order to avoid fees. This would place recipients on the same footing as all other consumers as well as avoid subsidizing recipients who unnecessarily rely on ATMs at the expense of those who use POS devices. Again, this would be consistent with results of research conducted with FMS on this topic that show consumer preferences to be for basic services at a low fee with options based on additional fees.

Q5. Should the account structure provide for additional electronic or nonelectronic deposits within the basic monthly service charge? If so, what number of deposits?

A5. We do not believe that the account should provide for additional electronic or nonelectronic deposits within the basic monthly service charge. This should be an optional service since all recipients may not need it. Additional deposits and co-mingling of funds could also create issues in the area of garnishment and attachment. Also, nonelectronic deposits could, in a regional ETA structure, impact financial institutions attempting to provide ETA services outside of their own states.

Q6. Should the account provide for some number of third-party payments, such as payments for rent or utility bills? If so, how many third party payments should be provided for and should they be priced in the basic monthly service charge?

A6. For the same reason as discussed in Answer 3, third-party payments should be provided only as an option.

Q7. Should the account include a savings feature? How would such a feature operate? Would additional free withdrawals or the capability to accept deposits other than the Federal payment act to foster savings by the recipient?

A7. The ETA will by its nature include a "savings" feature since amounts not spent should continue to be held in the account. We assume, therefore, that the real concern is whether the account should be interest-bearing. Lack of float income associated with Direct Federal accounts in EBT systems indicates that a savings feature may not be cost effective. To provide more than token interest would not only increase costs, but also possibly discourage recipients from enrolling for direct deposit services in a more traditional banking solution. As Treasury encounters savings and other enhanced service issues, it is important to note that an ETA is presumably a transitional or "last resort" account and not a long-term, high service solution for recipients.

Q8. How important is a broad geographic reach to meeting the access objectives that most recipients will want? How should Treasury best meet access needs in underserved areas?

A8. Use of a typical ATM/POS debit card approach to this population will, by today's standards, automatically provide a significant geographic reach in terms of cash access. Regarding how Treasury can meet needs in "underserved" areas, this issue has been dealt with in EBT. Generally, EBT contractors recruit a variety of retailers to provide "cash back" POS services. Treasury and its account services provider can augment this approach by using Postal Service lobbies for POS or "point of banking" ("POB") services (the Postal Service has previously indicated its willingness to work with EBT contractors to provide cash access in its lobbies). Treasury could spearhead a government initiative to accelerate POS deployment at Postal Service locations. Other locations that can provide POS and POB services include public or semi-public locations such as police stations, housing authorities or utility company offices. The issue of cash access points can be a topic that bidders are required to address as part of the ETA competitive bidding process. Ongoing expansion of the debit card network in the U.S. should, over time, reduce the impact of the cash access issue.

Q9. Should access to the account be provided at outlets in addition to those normally offered by the financial institution providing the account? For example, should arrangements be permitted under which third parties may offer other means by which a recipient may, in effect, withdraw funds from the account? If yes, should there be any restrictions on where additional access may be provided or under what terms it can be offered?

A9. Nonfinancial institutions can be a part of a financial institution's solution to Treasury's account requirements. Restrictions should be handled primarily through adequate disclosure to the recipients. These disclosures should specify the roles and responsibilities of each party. Nonfinancial institutions should not be allowed to provide services that they otherwise are not permitted to provide simply by virtue of their association with a financial institution that provides ETAs. Restrictions on locations at which additional access may be provided, however, would be inconsistent with both the recipients' ownership rights in the benefits and the manner in which both private debit cards and Direct Federal EBT operate today.

Q10. If additional access is offered through arrangements with third parties, should the cost of this additional access be included in the pricing proposal in the competitive bid process?

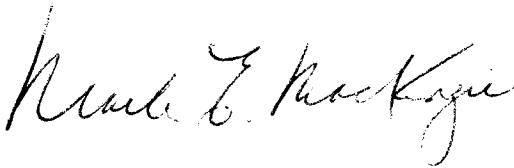
A10. Any additional access to funds provided through a third party should be included in the financial institution's price to the government. However, this should not apply to additional services that a nonfinancial institution partner to a financial institution could normally provide to the recipient. EFT 99 should not be used to limit services that such businesses can provide directly since this is usually a matter for state or local laws.

Q11. Which account design would provide the appropriate opportunity for non-financial institutions to participate in the delivery of services to Federal payment recipients?

A11. An open system that fully leverages the national EFT, POS and ATM infrastructures is essential to the successful operation of ETAs, with proper consideration for the important role of financial institutions in maintaining the safety and soundness of these systems.

Once Again, thank you for this opportunity to comment.

Sincerely,

A handwritten signature in black ink, reading "Mark E. MacKenzie". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Mark E. MacKenzie
Executive Director
Citibank EBT Services